Great outcomes. Done well.

Planning the Retirement You Want

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At its core, financial planning considers a variety of possible outcomes and evaluates each one's potential costs. One of the most challenging goals to plan for is retirement, for which you save an indefinite amount of money for an uncertain number of years to pay for an unknowable number of expenses. February's Wealth Management Insights reviews how you can plan for the retirement you want.

For more insights into retirement planning, follow Tim Steffen, Baird's Director of Financial Planning, on Twitter at @TimSteffenCPA, and check out the Winter 2015 issue of Digest at bairddigest.com.

What you should know:

1. Assume a long and expensive life.

- According to the Social Security Administration, roughly one-third of today's 65-year-olds will live past their 90th birthday. Even if you're not in the best health and longevity isn't common in your family, plan as if you will need your resources well into your nineties.
- A 65-year-old in retirement will likely have vastly different expenses than a 95-year-old. Honest and thoughtful budgeting accounts for different levels of spending throughout retirement.
- If you opt against health insurance policies like Medigap or long term care insurance, make sure you have the means to pay for those medical and assisted living services should you need them. Choosing not to buy the insurance doesn't eliminate the risk.

2. Create a plan for living in retirement, and stick to it.

- Opting into your employer's 401(k) is not retirement planning. Define a specific retirement savings goal and map out a strategy to reach it.

- While it's hard to say no, you don't want to blow your retirement savings being too generous with your adult children and grandchildren. Think long and hard before promising to fund a down payment, a lavish wedding or college tuition.
- Do you still need a large house or SUV after the kids move out? Many prefer to go into retirement by "trading down" and cutting back on unnecessary maintenance expenses. Many time their retirement date to coincide with paying off their mortgage.

3. Fine-tune your portfolio to meet your retirement needs.

- If your retirement is being funded by your investments, make conservative estimates of your nest egg's earnings. Let asset allocation drive your returns instead of market timing, and monitor and rebalance your portfolio as needed.
- Want to know how much of your portfolio should be in stocks? The old rule of thumb about subtracting your age from 100 to get your stock allocation was never a very good rule. Increased longevity makes this rule "too safe," leaving many of its followers without the portfolio growth they need. People today spend a third of their lives in retirement – don't let up on the gas too early!
- Make sure your portfolio is diversified, especially if you have company stock. It is not uncommon for investors to accumulate a large position in their employer's stock only to see it suffer a big downturn just as they head into retirement. The closer you get to retirement, the harder it is to recover from something like that.

What you should do now:

The pitfalls to retirement planning can extend beyond saving and spending – forgetting to roll retirement account withdrawals into a qualified account or not taking required minimum distributions can result in taxes and penalties that were entirely avoidable. Your Baird Financial Advisor can help you create a comprehensive, workable financial plan that lets you live out the retirement you want. ■

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